

Message Text

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C O N F I D E N T I A L CARACAS 6191

E.O. 11652: GDS
TAGS: ELTN, EINV, VE
SUBJECT: U.S. AUTOMOTIVE ASSEMBLERS IN VENEZUELA-
POTENTIAL SHOWDOWN OVER PRICE CONTROLS

CAUTION PROPRIETARY INFORMATION

1. SUMMARY. THERE IS A STRONG POSSIBILITY THAT CHRYSLER DE VENEZUELA MAY DECIDE TO CURTAIL OR CLOSE DOWN THEIR LOCAL ASSEMBLY OPERATIONS BECAUSE OF THE GOV'S FAILURE TO SOFTEN THEIR POLICY ON PRICE CONTROLS. SUCH A DECISION COULD TAKE PLACE AS EARLY AS MID-JULY.

2. REPRESENTATIVES OF CHRYSLER DE VENEZUELA (CDV) HAVE INFORMED THE EMBASSY THAT IN SPITE OF SOME SIGNS THAT THE GOV IS BECOMING MORE SYMPATHETIC TO THE APPEALS OF U.S. SUBSIDIARY ASSEMBLERS ON THE ISSUE OF PRICE CONTROLS, THE GOV MAY NOT OFFER ENOUGH RELIEF SOON ENOUGH, TO FORESTALL A CDV SHUTDOWN.

3. THE GOV'S COUNCIL OF MINISTERS RECENTLY RECOMMENDED TO PRESIDENT PEREZ THAT THE LOCAL AUTO ASSEMBLERS BE AFFORDED PRICE RELIEF. PEREZ REPORTEDLY RESPONDED THAT NO PRICE INCREASED WOULD BE ALLOWED ON MODELS
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CURRENTLY IN PRODUCTION.

4. IN A SUBSEQUENT MEETING WITH MINISTER OF DEVELOPMENT ALVAREZ DOMINGUEZ, CDV REPS SPELLED OUT THE CRITICAL NATURE OF THEIR FINANCIAL POSITION, (ACCUMULATED OPERATING LOSS AS OF 12/31/76 \$6.5 MILLION, PROJECTED 1977 LOSS ON PRICE CONTROLLED MODELS

\$7.2 MILLION) AND INDICATED THAT UNLESS CDV WERE TO BE GIVEN ASSURANCES OF EFFECTIVE RELIEF, CDV WOULD NOT UNDERTAKE EXPENSES ASSOCIATED WITH RE-TOOLING FOR 1978 MODEL PRODUCTION. THE GO - NO GO DECISION SHOULD BE MADE NO LATER THAN MID-JULY. ALVAREZ DOMINGUEZ SEEMED TO CDV TO BE UNDERSTANDING AND SYMPATHETIC TO CDV'S PROBLEM AND ATTEMPTED TO REASSURE CDV THAT THEY WOULD BE PROVIDED PRICE RELIEF ON THEIR NEW 1978 "ASPEN" MODEL.

5. CDV'S GENERAL MANAGER CALLED ON THE AMBASSADOR JUNE 13 TO BRIEF HIM ON THE BACKGROUND OF THE CURRENT SITUATION AND TO INDICATE THE SERIOUSNESS OF CHRYSLER'S INTENT TO CEASE THEIR LOCAL OPERATIONS UNLESS THE PROBLEM IS RESOLVED.

6. CDV AND REPS OF FORD, GENERAL MOTORS, AND RENAULT SUBSIDIARIES THEN MET WITH THE MINDEV AND WERE ADVISED THAT A NEW PRICING FORMULA WHICH WILL RECOGNIZE AND ALLOW ADJUSTMENTS FOR HIGHER VARIABLE COSTS, INCLUDING COSTS RELATED TO THE ASSEMBLERS' COMPLIANCE WITH THE GOV'S LOCAL CONTENT REQUIREMENTS WOULD BE ANNOUNCED BY THE END OF JUNE. AT THAT MEETING, CHRYSLER PRESENTED DETAILED COST DATA ON THEIR 1978 "ASPEN" MODEL, WHICH INDICATES THAT AN INCREASE OF 42PCT OVER THE CURRENT CONTROLLED SELLING PRICE OF THE EQUIVALENT "DART" MODEL WOULD BE REQUIRED TO EARN A SATISFACTORY PROFIT. THE
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MINDEV TECHNICIAN CHARGED WITH EVALUATION OF THIS DATA HAS PROMISED A REACTION BY 6/21.

7. DURING A MEETING WITH MINISTER FOR BASIC INDUSTRIES LAURIA (SCHEDULED PRIOR TO CDV CALL ON AMBASSADOR) THE AMBASSADOR RAISED THE ISSUE OF VEHICLE PRICE CONTROLS, AND ITS POTENTIAL FOR A CONFRONTATION BETWEEN THE GOV AND THE ASSEMBLERS. MINISTER LAURIA INDICATED THAT THE GOV IS FULLY COGNIZANT OF THE MATTER, AND WILL WITHIN 30 DAYS ANNOUNCE A PRICING FORMULA FOR NEW MODELS WHICH WILL PROVIDE FINANCIAL RELIEF TO THE ASSEMBLERS ON THEIR 1978 MODEL PRODUCTION.

8. COMMENT. REPRESENTATIVES OF CHRYSLER AND GM HAVE EACH CALLED ON THE AMBASSADOR ON PREVIOUS OCCASIONS TO OUTLINE THEIR PROBLEMS WITH THE GOV'S PRICE CONTROL POLICIES. IT APPEARS THAT NEITHER COMPANY IS WILLING TO CONTINUE LOCAL

OPERATIONS UNDER FINANCIAL CONDITIONS WHICH RESULT
IN THEIR FURTHER DECAPITALIZATION.
THROUGH THEIR RELUCTANCE TO ACCEDE TO EARLIER
APPEALS FROM THE AUTO INDUSTRY FOR PRICE RELIEF,
THE GOV HAS PLACED ITSELF SQUARELY ON THE HORNS
OF THIS DILEMMA: PRICE RELIEF FOR THE INDUSTRY IN
THE MEASURE NOW REQUIRED IS HIGH-POWERED AMMUNI-
TION FOR THE POLITICAL OPPOSITION; FAILURE
TO RENDER THIS RELIEF COULD RESULT IN POLITICALLY
SPECTACULAR AUTO PLANT CLOSINGS, AND OVER THE LONGER
TERM, DISRUPTIONS OF THE NATION'S AUTO-DEPENDENT
TRANSPORTATION . IN EITHER CASE, THE ACCUMU-
LATED DEFICITS OF THE U.S. ASSEMBLERS EVENTUALLY
WILL HAVE TO BE ACKNOWLEDGED AND RECONCILED IF THE
INDUSTRY IS TO CONTINUE TO PLAY THE ROLE IN
VENEZUELA'S INDUSTRIAL DEVELOPMENT WHICH THE GOV
HAS TAKEN FOR GRANTED.
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